



November 13, 2018

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505 Van Ness Street  
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**RE: Informal Comments on Draft Gap Analysis/Choice Action Plan**

**I. INTRODUCTION**

San Diego Gas & Electric Company (SDG&E) appreciates this opportunity to provide comments regarding the Commission's *Draft Gap Analysis/Customer Choice Action Plan* (Draft Gap Analysis). The Draft Gap Analysis is a timely and important undertaking given the rapid changes that have occurred in the energy industry as the result of customer choice, evolution of the electric grid and other energy industry and policy developments. The Draft Gap Analysis identifies major policy issues that must be resolved in the near-term – most critically: evaluation of the central procurement entity (CPE) concept, assignment of provider of last resort (POLR) obligations, consideration of resource procurement issues, which should include examination of the need for mandated procurement, rate reform and data access – to account for current and expected departing load.

The objectives of safety, reliability, affordability and decarbonization must underlie all policy actions undertaken by the Commission. While a systematic review of Commission proceedings currently underway and their relationship to the issues raised in the Draft Gap Analysis could yield relevant information that is helpful to the Commission, SDG&E submits that the final version of the Draft Gap Analysis should move beyond recommending passive monitoring of existing proceedings and should instead provide concrete and actionable steps to move the instant process forward. Customer choice is a reality *now* – the issues identified in the Draft Gap Analysis are relevant today and should be prioritized and addressed expeditiously.

As President Picker noted in the Commission paper, *California Customer Choice: An Evaluation of Regulatory Framework Options for an Evolving Electricity Market* (Choice Paper), “[n]ow, we are deregulating electric markets through dozens of different decision and legislative actions, but we do not have a plan. If we are not careful, we can drift into another crisis.”<sup>1/</sup> In other words, California no longer has the luxury of waiting to see how the Commission proceedings identified in the Draft Gap Analysis play out. If a strategy is not developed in the very near term to address priority issues, customer choice will expand faster than protections can be put in place. No stakeholder wants a repeat of California’s energy crisis; accordingly, the Commission must identify and commit to actions that are critical to maintaining reliability in an affordable manner, while achieving progress toward the state’s goals for decarbonization. SDG&E sets forth below those issues that it believes are the highest priority.<sup>2/</sup>

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<sup>1/</sup> Choice Paper, p. iii.

<sup>2/</sup> Section headings herein follow the topic descriptions included in the Draft Gap Analysis.

## **II. RELIABILITY PROCUREMENT; PROVIDER OF LAST RESORT**

The Central Procurement Entity (CPE) and Provider of Last Resort (POLR) function(s) will become increasingly important as load migration grows and potentially becomes multi-directional, forcing all load-serving entities (LSEs) (not just the utilities) to deal with the rapidly evolving market. In a decentralized environment with multiple retail sellers and where the investor-owned utilities (IOUs) are serving the minority of load – for example, SDG&E expects that it could serve less than 30 percent of the load in its service territory within the next few years – the need for a centralized entity with significant administrative and financial resources that is capable of undertaking residual procurement of local resources is essential.

The benefits of a CPE for residual procurement of local reliability resources has been acknowledged in the current resource adequacy (RA) proceeding,<sup>3/</sup> but little progress has been made in determining how a CPE would function, the scope of its responsibilities or what entity could take on the CPE role. SDG&E will continue to serve customers by providing safe and reliable transmission and distribution service and must, therefore, ensure its financial health in order to fulfill this obligation; continuing to be the default procurer of reliability resources in an environment where non-IOU LSEs serve the majority of load would present significant challenges. Thus, SDG&E believes that the appropriate path forward is to designate a CPE to serve as the default entity responsible for residual procurement of uncontracted resources required to maintain local reliability.

With increasing level of decentralization comes an increased likelihood of an unexpected obligation to serve a large numbers of customers and load with little warning. This makes the need for a CPE with significant administrative and financial resources all the more urgent. The

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<sup>3/</sup> Rulemaking (R.) 17-09-020.

centralized planning approach undertaken by a CPE would serve multiple objectives – a centralized approach helps to ensure reliable service and facilitates achievement of clean energy policy goals. To ensure meaningful progress in defining the CPE function, the following issues must be resolved: (a) the scope of the CPE’s authority and how it would procure residual local reliability resource; (b) a path for transferring “self-procured” electricity from electrical corporations to the CPE; and (c) a means of ensuring that non-IOU LSEs, including community choice aggregators (CCAs), energy service providers (ESPs) and self-generation, fairly contribute to achievement of the state’s grid reliability and greenhouse gas (GHG) reduction goals.

The Commission should also focus on the future roles and responsibilities of the CPE and *all* LSEs in ensuring a smooth hand-off in the event one or more IOUs elect to transition out of energy procurement. Critical functions currently managed by the IOUs that would shift away in such a scenario include: (a) Provider of Last Resort (POLR) responsibility; and (b) procurement of new reliability resources needed to achieve the state’s GHG reduction goals for the benefit of all customers in a service area. A CPE could act as the POLR for all customers in California or could auction this role off to a third party. Reliability procurement could be undertaken by both LSEs and the CPE; the CPE would ensure the State’s policy objectives are met, should LSEs fall short of their resource adequacy targets.

### **III. RESOURCE PROCUREMENT**

The next phase of the Power Charge Indifference Adjustment (PCIA) proceeding<sup>4/</sup> will examine IOU portfolio optimization strategies in light of load migration and the challenges surrounding forecasting of load departures. As the Commission noted in D.18-10-019, “[t]here

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<sup>4/</sup> R.17-06-026.

remains a significant degree of uncertainty regarding what further portfolio optimization and management tools will be possible and effective.”<sup>5/</sup> Given this uncertainty, and the need to determine big-picture procurement issues such as POLR and CPE, it makes sense to implement a pause on all currently-mandated IOU procurement that is not essential for meeting reliability need. Continuing to require the IOUs to procure resources at the same time the Commission is focusing on how to move resources *out* of the IOUs’ portfolios makes little sense. Requiring additional procurement at this point will merely increase the size of IOU portfolios, thereby compounding these already complex portfolio optimization and management issues. No party can hold load constant, but to the extent fluctuations in procurement can be either minimized or eliminated, the ability to reach a solution is greatly enhanced.

#### **IV. RATE DESIGN**

The transition to retail choice – by definition – requires unbundling of rates to clearly distinguish between utility services and the costs and benefits of policy mandates, and to assign a value to each. Retail providers must be able to isolate commodity-related costs and compete for customers based on the commodity product, while the distribution utilities must continue to charge customers for their use of the grid. Today’s bundled rates result in significant distortions, depending on the customer’s overall usage or their adoption of new technologies. The good news is that the Commission has the authority it needs to effect change in this area. In 2013, the Legislature passed AB 327, giving the Commission the necessary tools to rectify the distortions in rates and address unfair cost shifts. As explained in the *Joint IOU Informal Comments on the CPUC’s Draft Green Book* submitted by SDG&E and Pacific Gas and Electric Company

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<sup>5/</sup> D.18-10-019, p. 113.

(PG&E) on June 11, 2018. The framework for rate architecture should be based on access, equity, sustainability and transparency.

- A. Access. A modern rate architecture should enable choices for all customers and customer groups, not just for particular customers or customer groups with financial wherewithal or favorably situated circumstances.
- B. Equity. Equity means customer electric rates that are fair, just, and reasonable to all customers and all customer groups (equity does not mean that all customers and customer groups are offered the same services at the same prices). Equitable rates are necessary to achieve affordability.
- C. Sustainability. The modern rate architecture should be designed to accommodate new technologies, customer choices, and other changes as the electricity landscape evolves. It should be forward thinking to prevent new market entrants from exploiting elements of the rate architecture to benefit themselves and their customers, at the expense of other customers.
- D. Transparency. Transparency to regulators, customers and potential customers (but maintaining confidentiality rules needed to create a more competitive marketplace) with a focus on price and associated terms and condition.

## **V. DATA ACCESS**

The Draft Gap Analysis paper describes a number of potential issues related to access to data by third parties. SDG&E agrees that issues surrounding access to data by third parties should be an area of focus; it is likely that existing data access classifications and rules will need to be updated or refined. SDG&E also agrees with the conclusion in the Draft Gap Analysis that

further analysis and stakeholder input are needed to develop a comprehensive list of issues.<sup>6/</sup>

SDG&E has previously suggested, in the context of the Commission's Rule 24/32 proceeding, that a new Commission rulemaking proceeding is needed to properly engage a broad group of stakeholders on this topic.<sup>7/</sup>

To date, discussions regarding data access have been limited to a small group of parties involved in Rule 24/32 activity. During the past year of meetings by the Customer Data Access Committee (CDAC),<sup>8/</sup> there has not been the wide variety of distributed energy resource providers (DERPs) necessary to achieve meaningful progress on data access issues. Despite the efforts of the Energy Division to solicit DERP feedback on data access in preparation for the IOUs' imminent filing of applications ordered by Resolution E-4868, SDG&E received responses from only 9 DERPs or energy management companies – a small subset of the scores that exist and are active in California. Given its narrow scope, the Rule 24/32 proceeding may not have attracted the attention of these entities. In light of the growing importance of data access, SDG&E agrees with the recommendation in the Draft Gap Analysis to initiate a new formal Commission proceeding that provides a broader, higher-profile platform to address data access issues.

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<sup>6/</sup> Draft Gap Analysis, p. 10.

<sup>7/</sup> SDG&E's Reply to Protests of Advice Letter 3030-E, p. 6.

<sup>8/</sup> Chartered in Resolution E-4868.